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Avian Influenza Update - Italian Demand for Poultry Drops and Industry Seeks Support

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Report Highlights:

The discovery of H5N1 Avian Influenza in wild birds in Italy has knocked the bottom out of consumer demand for poultry, and the industry is clambering for assistance. Italian authorities seem determined to provide it, regardless of EU approval. To date, no flock of poultry has been infected nor culled.

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Background

The Italian authorities have so far confirmed 8 cases of the highly pathogenic H5N1 avian influenza virus in dead wild swans found on the eastern coast of Sicily, and in the regions of Puglia and Calabria (see IT6008). Two wild ducks have also been found dead in the Puglia region and have been tested, but results have not been made public yet. The Italian authorities immediately applied the emergency measures called for in the national plan (see IT5039 and IT6002), which is in compliance with EU and international requirements.

The measures being applied by Italy are very similar to those adopted in other EU countries: the establishment of a high-risk area (a 3 km protection zone) around each of the affected sites and a surrounding surveillance zone of 10 km. In the protection zone, poultry must be kept indoors, movement of poultry is banned except directly to the slaughterhouse and the dispatch of meat outside the zone is forbidden except where products have undergone the control measures provided for in EU food legislation (i.e. meat sourced from healthy animals in registered farms, subject to ante- and post-mortem checks by vets in the slaughterhouse). In both the protection zone and the surveillance zone, on-farm biosecurity measures must be strengthened, hunting of wild birds is banned and disease awareness of poultry owners and their families must be confirmed.

Unlike other EU countries however, and seemingly regardless of EU Commission objections, Italy is maintaining a scheme for mandatory country-of-origin-labeling for all poultry products produced and sold in the country (see IT6002).

Italian authorities anticipate that new cases in migratory birds could be found in the spring when birds migrating from Africa to Russia and the Balkan area stop to rest in Italian territory.

Increased controls on industry revealed surprises

After the October 2005 outbreak of H5N1 AI in Asia, the Italian Ministry of Health mandated, among other things, that the National Food Safety Police Force (Carabinieri per la Sanità) reinforce inspections on poultry plants, augmenting the routine inspection activities carried out by official vets. The Carabinieri have inspected 11,681 plants and have detected 2,487 crimes of diverse nature. In some instances poultry meat packers or egg producers were producing without the necessary health authorizations. In other cases poultry meat had been imported illegally from extra-EU countries, including China and South East Asia. A substantial volume of poultry meat and eggs were seized during these operations and, in most cases, owners of plants were charged with criminal offences against public health. The Ministry of Agriculture asked the National Institute for Food Fraud to reinforce border inspections on poultry products. All these actions have strengthened Italy's ability to resist and contain poultry infection.

FAO comments on the Italian response to AI

On February 13, 2006 the Food and Agriculture Organization of the United Nations qualified as "extremely effective" the control measures taken by Italian authorities following the discovery of the highly pathogenic avian influenza virus in wild swans in Southern Italy. "The measures are an example of how governments should move to contain the virus once it is detected," said Juan Lubroth, Senior Officer with FAO's Animal Health and Production Division. "It is vital that control and surveillance measures continue. There is not much we can do about wildlife, but to

prevent the spread of the virus we must control the way poultry is raised and the way poultry products are marketed”, he added.

Market and industry reactions

The effect of the avian influenza scare on the Italian poultry industry has been severe. The table below provides a snapshot of the Italian poultry industry in ordinary times according to one of the major farmer organizations.

Product	Number of Farms	Number Produced/year	Meat Production/year	Turnover
Broilers	2,750	450 million	700,000 tons	€3 billion
Layers			80,000 tons	
Turkey	700	36 million	350,000 tons	
Other birds	700	100 million	70,000 tons	
Eggs	2,000	13 billion		€1 billion
TOTAL	6,150		1.2 million tons	€4 billion

Source. Confederazione Italiana Agricoltori

The poultry sector employs between 150,000 and 180,000 workers. According to another farmer organization (Confagricoltura), average per capita consumption in the country before the AI scare was about 18 kilos of poultry meat and 200 eggs per year.

Annual poultry meat consumption in Italy in CY2005 had already dropped by about 7% from the year previous due to AI fears shrinking demand about 25-35% in the last quarter. The recent finding of AI cases in wild birds within the Italian borders have resulted in a much larger drop in consumption. All the major farmer organizations depict the current circumstances of the Italian poultry industry as drastic, but they provide very different data. Summary data are as follows:

- Poultry consumption since the discovery of the AI stricken swans is reported to be down by about 70% from normal;
- The industry claims to be losing between €5 and 6 million a day, and to have lost a total of some €500 to 650 million between October 2005 and now;
- About 40,000 jobs in the industry are at risk.

It is hard to quantify the market implications of the scare in the medium-long run, as it will probably depend on possible new detections as well as on irrational public perception of risk associated with consuming poultry meat.

Farmers associations and the poultry industry are lobbying Minister of Agriculture Alemanno and Prime Minister Berlusconi for compensation for the losses suffered as a result of the AI scare.

What to expect from Brussels

Minister of Agriculture, Gianni Alemanno, has announced that he will have a bilateral meeting with EU Agriculture Commissioner Fischer-Boel on Monday 20, and, if the Commission does not give him the green light to go ahead with intervention measures to provide relief for the Italian poultry producers, Italy will disregard Commission recommendations and start withdrawing frozen poultry meat from the market anyway. “We are ready to face the risk of an EU infringement procedure” Alemanno said after a meeting with Health Minister Storace and industry representatives. Alemanno announced that the Government of Italy has earmarked €20 million to withdraw 17,000 tons of frozen poultry meat from the market for use as food aid, and that the plan is to provide another €20 million with the target of withdrawing a total of 45,000 tons. Rumors are that the GOI has already started stockpiling frozen poultry meat in the hope of getting approval from Brussels.

The spokesperson of EU AgCommissioner Fischer-Boel has made it clear that unless the disease affects commercial flocks and they have to be slaughtered to prevent the spread of the disease, the EU common market organization does not leave room for funding emergency measures.

Looking at previous experience, the Italian Region of Lombardy was authorized in 2002 by the EU Commission to provide state aid (numb. 808/2002) in the form of payments to farmers affected by an outbreak of high pathogenic avian influenza (not H5N1) in the region. In that case, however, the situation was substantially different as the disease was affecting commercial flocks. In the current circumstance, any industry losses are the result of a sudden disappearance of demand.

Regardless of the outcome of the next AgCouncil, the EU Commission has asked Italy to provide clarification of the mandatory country-of-origin-labeling scheme introduced in October. FAS Rome knows of no action taken so far by the Italian Government to enforce this measure. Some of the farm organizations are lobbying strongly for maintaining the mandatory COOL provision regardless of Commission objections. In order to support this request, the farmer organization Coldiretti claims that since the introduction of mandatory COOL, Italian exports of poultry meat to EU and extra-EU countries have increased by about 16% in volume. Ironically, with current consumer attitudes, one might expect purchasers to use COOL to avoid, rather than seek out, Italian poultry.

Comments

Italian poultry production is largely based on production contracts called “soccida”. A company, usually a feed producer, supplies to farmers all the genetics (chicks), the technical assistance and the feed necessary for the production cycle. When broilers (or turkeys) are ready for market, the supplier (actually owner) will buy them. This implies that the production chain, being very flexible, can easily react, or over-react, to market signals. It also means that losses that are currently being felt because of a lack of demand are not all being laid at the farmer’s doorstep. The large firms that contract out the production are bearing much of the losses, as are downstream service industries. The estimates of the damage wrought because of consumer fears range widely from €300 million to over €700 million. Election year politics and legitimate economic concerns combine to make detailed analysis difficult. At this time it is impossible to forecast the longer term impact of the avian influenza scare on meat consumption or feed use. It will all depend on a number of factors including new findings of affected migratory birds and,

most of all, on the way media addresses the issue in the next weeks. While there has been some industry effort to reassure consumers as to the safety of poultry, there remains room for more work in this area.